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FOR ASSISTANT SEC ENDERS

FOLLOWING REPEAT HAMBURG 1465 ACTION SECSTATE INFO

USBERLIN BONN BREMEN DUSSELDORF FRANKFURT

MUNICH STUTTG

RT DTD 10 OCT

QTE

C O N F I D E N T I A L HAMBURG 1465

E.O.11652: GDS

TAGS: ECON ELAB ETRA GW

SUBJECT: MEETING WITH VOLKSWAGEN HEAD TONI SCHMUECKER

REF: A. HAMBURG 0616

B. HAMBURG 0640

1. SUMMARY: DURING COURSE OF COURTESY VISIT, VOLKSWAGEN CHIEF TONI SCHMUECKER TOLD CONSUL GENERAL THAT, AFTER YEAR OF RATIONALIZATION, VW WILL SOON BE MAKING PROFITS AND REHIRING EMPLOYEES. HE ALSO DISCUSSED VW'S PLANS TO INVEST IN US, INDICATING DECISION NOW MUST BE MADE BY SPRING OF 1976 AND CONCEDED THAT, PENDING THIS DECISION, VW IS DELIBERATELY SELLING AT A LOSS IN U.S. DISCUSSION ALSO TOUCHED ON WORLD ECONOMIC SITUATION AND GERMAN POLITICAL
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PICTURE. END SUMMARY.

2. ECON/COMMERCIAL SECTION CHIEF REYNDERS AND I PAID A CALL ON VW HEAD TONI SCHMUECKER ON OCT 9, 1975. THE PURPOSE OF THE MEETING, WHICH LASTED ABOUT 1-1/2 HOURS AND WAS FOLLOWED BY A TOUR OF THE WOLFSBURG PLANT, WAS TO MEET HERR SCHMUECKER AND TO DEVELOP CURRENT INFORMATION ON A WIDE RANGE OF PROBLEMS FACING VW, AS REPORTED IN REFTELS.

3. SCHMUECKER TOLD ME THAT VW RAN DM 807 MILLION IN THE RED LAST YEAR, ADDING THAT THIS IS THE LARGEST DEFICIT EVER RUN BY ANY COMPANY ANYWHERE. HE EXPECTS THE DEFICIT THIS YEAR TO BE HALF THAT AMOUNT AND, BY NEXT YEAR, HE EXPECTS VW TO BE IN THE BLACK. HIS OPTIMISTIC FORECAST WAS BASED LARGELY ON WHAT HE FEELS IS THE SUCCESSFUL IMPLEMENTATION OF HIS "RATIONALIZATION PROGRAM", CENTRAL TO WHICH WAS A WORK FORCE REDUCTION OF 25 THOUSAND EMPLOYEES IN THE TEN MONTHS SINCE HE TOOK OVER VW. THE REDUCTION WAS ACHIEVED BY LAYING OFF 20 THOUSAND EMPLOYEES, WITH ANOTHER 5 THOUSAND LEAVING THROUGH NORMAL ATTRITION. EMPHASIZING THAT THIS WAS IN STRICTEST CONFIDENCE, HE INDICATED THAT VW WILL BEGIN REHIRING IN EARLY 1976. SCHMUECKER INDICATED THAT, BESIDES ECONOMY, ANOTHER REASON FOR THE LAYOFFS WAS TO SPUR THE REMAINING WORK FORCE TO GREATER PRODUCTIVITY THROUGH INTIMIDATION. BY IMPLICATION, HE ALSO SEEMED TO BE SAYING AT ONE POINT THAT HE HAD ACTUALLY RELEASED MORE WORKERS THAN WAS NECESSARY, AND THE REHIRING, WHICH HE EXPECTS TO BEGIN NEXT YEAR, HAD BEEN PART OF HIS PLAN ALL ALONG. THIS WOULD ALLOW HIM TO CLAIM, AFTER ONLY A YEAR ON THE JOB, THAT HE HAD SUCCESSFULLY TURNED VW'S FORTUNES AROUND.

4. CONCERNING VW'S INVESTMENT PLANS FOR THE UNITED STATES, SCHMUECKER SAID THAT THIS WAS VW'S "MOST DIFFICULT DECISION EVER." THE DECISION ONCE AGAIN HAS BEEN DELAYED BUT MUST BE MADE BY SPRING 1976. FAILURE TO DECIDE BY THEN, SCHMUECKER SAID, WOULD BE IN EFFECT A NEGATIVE DECISION, BECAUSE AFTER THAT THE OPPORTUNITY TO INVEST PROFITABLY WILL HAVE BEEN LOST. HIS REASONING ON THIS, AS I UNDERSTAND IT, IS THAT THE MAJOR US PRODUCERS HAVE NOW DECIDED TO PRODUCE MODELS DIRECTLY COMPETITIVE WITH THE VW RABBIT. SCHMUECKER BELIEVES THAT THE US MANUFACTURERS NOW WILL MOVE VERY RAPIDLY TO GET

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THESE NEW MODELS ONTO THE MARKET. ONCE ON THE MARKET THE US MODELS WOULD, HE PREDICTED, BE PRODUCED AT 7 OR 8 TIMES THE VOLUME OF ANY POTENTIAL NEW ENTRANT, YIELDING ECONOMIES OF SCALE WHICH WOULD, IN EFFECT, MAKE THE NEW ENTRANT UNCOMPETITIVE IN PRICE.

5. I ASKED SCHMUECKER ABOUT RUMORS WE HAVE HEARD CONCERNING PARTNERS AND LOCATIONS FOR A POSSIBLE INVESTMENT. HE

ACKNOWLEDGED THAT VW HAS BEEN LOOKING WITH PARTICULAR INTEREST AT A CHRYSLER PLANT IN OHIO ON WHICH CONSTRUCTION WAS STOPPED AFTER THE BUILDING'S SHELL HAD BEEN COMPLETED.

6. IN DISCUSSING HIS COMPANY'S PLANS FOR INVESTING IN THE U.S. SCHMUECKER VIRTUALLY ADMITTED THAT VW IS PRESENTLY DUMPING IN THE AMERICAN MARKET. VW, HE SAID, LOSES MONEY ON EVERY UNIT THEY SELL IN THE US. THEREFORE, THEY HAVE RESTRICTED EXPORTS TO THE US TO THAT LEVEL WHICH THEY BELIEVE IS NECESSARY TO BARELY MAINTAIN THE VAST US DEALER/SERVICE NETWORK. IN PRACTICE, THIS MEANS SHIPMENTS THIS YEAR WILL EQUAL THOSE OF LAST YEAR, BUT IN THE COURSE OF THIS YEAR A HUGE INVENTORY IN THE US HAS BEEN WORKED DOWN TO VIRTUALLY ZERO. SCHMUECKER SAID HIS DEALERS ARE UNHAPPY ABOUT THE SITUATION AND COULD SELL MANY MORE UNITS AT PRESENT PRICES WERE VW WILLING TO MAKE THEM AVAILABLE, BUT VW SIMPLY CANNOT AFFORD TO DO SO. HE EXPRESSED CONSIDERABLE CONCERN ABOUT THE FUTURE OF HIS DEALERS IN THE US, SHOULD THE DECISION BE MADE NOT INVEST THERE.

7. SCHMUECKER SAID THAT HIS LABOR FORCE IN GERMANY WOULD NOT POSE A GREAT PROBLEM SHOULD VW DECIDE TO INVEST IN THE US BECAUSE THE AMERICAN MARKET, AS HE SEES IT, IS ALREADY LOST TO GERMAN-MADE VW'S, AS EXPLAINED ABOVE. HE EVIDENTLY BELIEVES THAT HE CAN CONVINCE LABOR THAT REFUSING TO OPEN A FACTORY IN THE US WOULD NOT MEAN MORE JOBS IN GERMANY AND, INDEED, COULD MEAN THE RUIN OF THE VW EMPIRE EVEN HERE. IN THIS CONNECTION, SCHMUECKER ALSO STATED THAT THE PROBLEMS OF MANAGING VW, BECAUSE OF THE PRESENCE OF LABOR AND SPD CONTINGENTS IN THE COMPANY'S DIRECTORATE, WERE VASTLY OVERSTATED BY HIS PREDECESSOR FOR CORPORATE AND PERSONAL POLITICAL REASONS. SCHMUECKER HIMSELF SEES NO DIFFICULTY IN OBTAINING APPROVAL FOR ANY DECISION WHICH IS NECESSARY FOR

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THE CONTINUED PROFITABILITY OF VW. SURPRISINGLY, SCHMUECKER WAS EMPHATIC IN HIS VIEW THAT US WORKERS ARE MORE PRODUCTIVE AND MORE EFFICIENT THAN THEIR GERMAN COUNTERPARTS, BASING HIS VIEW ON VISITS TO MORE THAN 80 AMERICAN PLANTS MAKING NOT ONLY AUTOMOBILES, BUT ALSO STEEL AND OTHER PRODUCTS. THIS, HE BELIEVES, IS AN ARGUMENT IN FAVOR OF ESTABLISHING A MANUFACTURING PLANT IN THE US.

8. SCHMUECKER ASKED ABOUT THE CURRENT OUTLOOK FOR THE US ECONOMY AND SEEMED PLEASED, ALTHOUGH NOT NECESSARILY SURPRISED, WHEN I ASSURED HIM THAT THE SITUATION LOOKS QUITE FAVORABLE, PARTICULARLY WHEN COMPARED WITH A YEAR AGO. SCHMUECKER SAID HE SHARES THE COMMON GERMAN VIEW THAT GERMANY'S ECONOMY CANNOT RECOVER FROM ITS PRESENT RECESSION UNTIL THE US ECONOMY TURNS UPWARD.

9. DISCUSSING THE 1976 FRG FEDERAL ELECTIONS, SCHMUECKER
WAS RELUCTANT ABOUT EXPRESSING HIS PERSONAL PREFERENCES. HE
BELIEVED, HE SAID, THAT A RETURN OF THE SPD/FDP COALITION
GOVERNMENT WAS A CERTAINTY. ITS REELECTION WOULD NOT,
HOWEVER, HE THOUGHT, ADVERSELY AFFECT VOLKSWAGEN BECAUSE IT
WOULD MEAN A CONTINUATION OF A SATISFACTORY MANAGEMENT-
LABOR RELATIONSHIP BASED UPON A CLOSE IDENTITY OF SPD AND UNION
GOALS. BROGAN UNQTE KISSINGER

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